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DE RUEHLB #0598/01 1521001
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FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC PRIORITY 4999
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCNDT/USMISSION USUN NEW YORK 3849
RHMCSUU/CDR USCENTCOM MACDILL AFB FL
RHEHAAA/NSC WASHDC
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C O N F I D E N T I A L SECTION 01 OF 04 BEIRUT 000598

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E.O. 12958: DECL: 06/01/2019

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SUBJECT: LEBANON: TREASURY U/S LEVEY DISCUSSES HIZBALLAH,
IRAN AND REPUTATION OF BANKING SECTOR WITH LEBANESE BANKING
SECTOR

REF: A. BEIRUT 469
[1](#)B. STATE 37028
[1](#)C. BEIRUT 422

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey, accompanied by the Ambassador, reaffirmed to Lebanese interlocutors at the Central Bank of Lebanon, the Banking Control Commission, Ministry of Finance, and private sector bankers that the U.S. valued its cooperative relationship with Lebanon to protect the integrity of the international financial system and combat terrorist financing and other illicit finance during his one-day visit to Lebanon on May 15. Levey cautioned that despite the divergence of political opinion between the U.S. and Lebanon vis-a-vis Hizballah, a May 13 Financial Times article in which Hizballah admitted to providing full support to Hamas -- a designated terrorist organization in both the U.S. and Europe -- was a clear signal that the GOL should not look the other way but instead remain vigilant to deny Hizballah access to the banking system.

[1](#)2. (C) On Iran, Levey discussed with his interlocutors the threat posed by Iran to the international financial system because of its deceptive financial practices and use of the banking system to facilitate proliferation and terrorism. He noted that, because major financial institutions had cut off their Iran business based on the high risk associated with it, Iran was now seeking to partner with financial institutions outside of Iran where Iranian entities could obtain a controlling interest in banking institutions, create joint ventures, or purchase banks to improve its access to the international financial system.

[1](#)3. (C) Levey's interlocutors concurred with Levey's assessment that Lebanon's political and security stability

depended on the level of confidence in the banking sector. The bankers emphasized that they were professionals and were charged with maintaining the integrity of the system, yet several expressed concern about a possible negative reaction from the U.S. if the Hizballah-led March 8 alliance were to win a majority in the June 7 parliamentary elections. End summary.

14. (U) U/S Levey and his Chief of Staff and Senior Advisor, Christy Clark, visited Beirut May 15. Accompanied by the Ambassador and Poloff, they met with the four Vice Governors of the Central Bank (Raed Charafeddine (Shia), Saad Andary (Druze), Mohammad Baasiri (Sunni), and Haroutian Samuelian (Armenian Orthodox)); head of the Banking Control Commission (BCC) Walid Alameddine; Minister of Finance Mohamad Chatah; and 16 representatives of Lebanese and international commercial banks.

HIZBALLAH ADMITS
TO SUPPORTING HAMAS,
WHAT WILL THE GOL DO?

15. (C) U/S Levey pointed to a May 13 Financial Times article in which Hizballah Deputy Secretary General Naim Qassem admitted Hizballah provides full support for Hamas as a clear sign of Hizballah's illicit financial and terrorist activity.

Levey noted that Hizballah's support for Hamas, which is recognized not only by the United States but also the Europeans as a terrorist organization, could result in the Europeans treating financial interaction with Hizballah

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differently. He offered that Hizballah's open support for Hamas may resonate in Europe, and this is something worth thinking about in terms of Lebanon's own banking sector. Levey warned the GOL representatives that it was also their responsibility to adhere to agreed upon international codes of conduct to combat terrorist financing, irrespective of Hizballah's participation in the government.

16. Acting Central Bank Governor Raed Charafeddine said the CBL was "very clear about the operating practices" of the commercial banks and did not want to expose Lebanon's system to any "shadow of a doubt." Charafeddine added that although he is Shia, he is a professional first; it is the job of the Central Bank "to protect the banking system," he said. Mohammad Baasiri, one of four Vice Governors and concurrently head of Lebanon's Financial Intelligence Unit-equivalent, the Special Investigation Commission (SIC), strongly emphasized the GOL's commitment to international financial practices, despite the divergence in the U.S. and GOL positions vis-a-vis Hizballah.

17. (C) Walid Alameddine, head of the Banking Control Commission, concurred with his Central Bank colleagues and added that Hizballah's financing does not come through the formal banking system in Lebanon. The commercial bankers disclosed that they take the international standards one step further by refusing even to open accounts for any person or entity related to Hizballah. Vice Governor Raed Charafeddine gave an example, later confirmed by Fransabank (where Charafeddine was formerly Deputy General Manager), whereby the bank denied, recently, the application of a Hizballah-run school to establish a banking domicile to pay the salaries of its teachers.

IRAN'S FINANCING OPTIONS
CONSTRAINED, NEW TACTICS
UNDER CONSIDERATION

18. (C) Turning to Iran, U/S Levey told his interlocutors that there was evidence that Iran was actively searching for new outlets to access the international financial system. Iranian entities, he said, sought to partner with financial

institutions abroad to obtain a controlling interest in banking institutions, create joint ventures, or purchase banks. U/S Levey encouraged the GOL to implement countermeasures to protect the Lebanese banking system from the terrorist financing and money laundering risks posed by Iran, as called for by the Financial Action Task Force (FATF) at its plenary session in February. Although there has been a recent increase in economic cooperation between Lebanon and Iran (ref C), the Central Bank governors were not as concerned about Iranian manipulation of Lebanon's banking system. They requested, however, that the U.S. "communicate in full transparency and full faith" to the CBL and SIC if it had specific concerns.

¶9. (C) Baasiri and the other CBL governors argued that the threat from Iranian banking entities was very small in Lebanon, with only one Iranian bank -- Bank Saderat -- operating there. Bank Saderat (also designated by the U.S. under its terrorism Executive Order, E.O. 13223), has five branches in Lebanon with total assets amounting to approximately USD 100 million, less than 0.011 percent of Lebanon's banking sector, Alameddine said. Bank Saderat was a "very small but irritating" institution for the GOL because of the U.S.-designation and the international attention focused on Iran, he added.

¶10. (C) U/S Levey explained that the United States had acted against Bank Saderat for facilitating Iran's support to

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terrorism and that, as a result no U.S. person can do business with it. He noted Paragraph 10 of UNSCR 1803, which calls on states to exercise vigilance over the activities of financial institutions in their territories with all Iranian banks, particularly Banks Melli and Saderat. Furthermore, U/S described the restrictive measures that the European Union had put in place in response to this provision and noted that European banks have largely stopped doing business with Iran. He cautioned the Lebanese financial authorities about Saderat's conduct and also the possibility that Iran could attempt to enter Lebanon's banking system through the use of front companies or hidden identities and affiliations with Iranian entities. In addition, U/S Levey offered U.S. assistance to the GOL, if requested, to investigate whether certain individuals or entities had ties to Iran's designated banks.

¶11. (C) The case of the reactivation of a loan from the Export Development Bank of Iran (EDBI) to the GOL (reftels) was also a concern, U/S Levey said. Minister of Finance Mohamad Chatah, Alameddine and the CBL governors reiterated their belief that the signing of the reactivation was "probably a mistake," but the original loan was initiated in 2003 before EDBI's designation. Chatah also explained that the loan is a government to government transaction, rather than through the commercial banks, and could be a viable source of funding for development projects. However, Chatah said the issue was under review in the cabinet and would be studied carefully.

LEBANON'S STABILITY
DEPENDS ON CONFIDENCE
IN BANKING SECTOR

¶12. (C) Treasury U/S Levey emphasized to the Central Bank Governors, the Banking Control Commission, Minister of Finance and commercial bankers the value of the U.S.-Lebanon banking sector relationship. In these turbulent economic and financial times, Levey said, Lebanon is an exceptional example of a regional economy that has weathered the global financial crisis relatively well. He continued, however, that concerns exist about Lebanon's ability to avoid a "crisis of reputation" and a lack of confidence from international investors, should Hizballah become more active in the formal banking sector. He noted again Hizballah's

support for another terrorist organization, Hamas, and the fact that Hamas was recognized as a terrorist organization in Europe. The commercial bankers, especially, were the most adamant that until now the Lebanese banking sector "was successful avoiding toxic assets and toxic activities," said Dr. Joseph Torbey, former President of the Association of Banks in Lebanon (ABL). They were committed to maintaining this vigilance, he said, for the sake of the whole system.

¶13. (C) Alameddine, on the other hand, was less optimistic and characterized the Lebanese banking system as vulnerable. Although financially Lebanon's banks are overcapitalized, he said, they are still vulnerable. Alameddine, seconded by others, said that should anything happen to shake confidence in Lebanon's banking sector, the political stability of the country would fall by the wayside.

¶14. (C) In a coffee reception following the roundtable with the commercial bankers, several expressed their private concerns to U/S Levey about a negative U.S. reaction to the outcome of the June 7 parliamentary elections if the Hizballah-led opposition were to win the majority. A negative U.S. reaction, the bankers opined, could contribute to a lack of confidence in the banking system and undermine Lebanon's financial sector.

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¶15. (C) The bankers also raised grievances about the discrepancies between the U.S.-designations lists and the UN-designations lists. The more identical the two lists are, the easier it was for Lebanon to take action against the designated individuals or organizations, the bankers said. The bankers also sought U.S. assistance to help alleviate "reputation risk." They reported that it was not uncommon for other countries, especially in Asia, to delay receipt of outgoing transfers from Lebanon because of a perception that all transactions out of Lebanon were inherently linked to Hizballah. U/S Levey offered to use his office to sensitize other countries to this issue and provide an accurate explanation of UN Security Council Resolution (UNSCR) 1701 -- which calls on all states to take necessary measures to prevent the provision of assistance, training, or weapons, to any entity not authorized by the GOL -- because that resolution does not preclude countries from financial dealings with Lebanon.

¶16. (U) U/S Levey has cleared this message.
SISON